

New York Sun
July 12, 2005

Cafta and New York

New Yorkers will want to keep a weather eye out on the Congress this week, as its members return from the July 4 recess and the house girds for a battle over the Dominican Republic-Central America Free Trade Agreement, known as Cafta. Unfortunately, our House delegation looks set to do just as bad a job of looking out for the interests of New Yorkers as did our two senators when they voted against the trade pact in June.

Like the North American Free Trade Agreement that stands as the greatest economic reform of the Clinton years, Cafta would permit New Yorkers to purchase less expensive goods by opening our economy to free trade, eliminating or dramatically reducing barriers such as tariffs and quotas. New York City and state stand to gain a lot under the deal.

An analysis prepared in 2004 by the United States Chamber of Commerce found that after one year, Cafta would boost the state's output by \$149 million and the state would enjoy a cumulative \$802 million bonus over the first nine years after implementation of the agreement. According to the Chamber, that output growth would translate to a \$32 million increase in wages for New Yorkers and \$173 million over nine years, while eventually creating more than 4,000 new jobs after nine years.

And this is just in the manufacturing sector; no one has yet calculated the benefits once financial services and high-tech industries are factored in. The Empire State would gain for many reasons, according to the researcher who wrote the Chamber's study, Mark Smith. New York harbor, already a trade hub, would cash in on even greater traffic, a happy effect compounded by the region's extensive airport infrastructure.

As the financial capital of the world, New York City also has a stake in the agreement's liberalization of capital markets. For example, Costa Rica has committed to opening up its reinsurance sector under the deal. The state's burgeoning high-tech sector would also benefit, as Cafta frees markets in areas such as telecommunications that have, up to now, often been highly regulated and restricted in Central America.

Mr. Smith notes that many of the Central American signatories already export goods to America without paying tariffs on about 80% of their goods. American exporters doing business down south, however, pay tariffs of between 7% and 10% on most goods. From the first day the trade deal is enacted, most of those tariffs would disappear. As a result, a medium sized business exporting \$1 million of goods to Central America would save \$100,000 a year in tariffs starting the first day the agreement is implemented, according to Mr. Smith.

A cross section of New Yorkers stands to benefit. While in many states particular sectors might gain more than others, the diversity of New York's economy will allow the rising tide of free trade to lift a lot of boats. So what is New York's delegation doing to secure all these benefits for their constituents? So far, nothing. At best. Our two senators opposed it when the agreement passed the Senate on June 30, with Senator Smoot Schumer extending his China protectionism. Senator Clinton betrayed the ideals of her husband's presidency.

The picture is just as bleak on the House side of Capitol Hill, as the chart herewith shows. Many of our representatives, such as Congressmen Jose Serrano and Charles Rangel, purport to support free trade but still argue that this is not the "right Cafta," in the words of one of Mr. Rangel's press releases. The argument boils down to the claim that Cafta doesn't do enough to protect workers - both at home and abroad - or the environment. Opponents fear that the developing countries will lower labor and environmental standards to make themselves more competitive.

This sounds like the 1993 argument against Nafta, and it is even less true now than it was then. If the yardstick is the number of words devoted to labor and environmental standards, Cafta is far ahead of Nafta, says Daniel Griswold, a trade expert at the Cato Institute. Whereas these issues were addressed in so-called side letters in Nafta, they are in the text of the agreement itself this time around. And Mr. Griswold notes that, far from sparking a "race to the bottom," free trade encourages a "race to the top," as economic growth gives developing countries the ability to improve literacy and reduce child labor.

But that might not even matter, since opposition to the agreement seems rooted more in partisan politics than in the text of the deal itself. In this view, Democrats are more interested in embarrassing the current president and congressional Republicans than they are in the economy. The fact is, however, that economic growth spurred by Cafta would definitely help New Yorkers to put bread on the table.